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JAMES A. NOYES, Director

COUNTY OF LOS ANGELES

DEPARTMENT OF PUBLIC WORKS

"To Enrich Lives Through Effective and Caring Service"

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IN REPLY PLEASE
REFER TO FILE: **FI-4**

May 6, 2004

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

**APPROVAL OF POLICY
FOR CREDIT/DEBIT CARD ACCEPTANCE
ALL SUPERVISORIAL DISTRICTS
(3 VOTES)**

IT IS RECOMMENDED THAT YOUR BOARD:

Find that the inclusion of credit/debit card (card) acceptance costs (including card discount fees) in Public Works fees for permits, inspections, and related services is consistent with the cost neutrality provisions of the existing Board Credit/Debit Card Acceptance Policy.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

Many County customers consider paying for County transactions with cards to be a convenient, efficient, and preferred payment option. However, the County's existing policy for accepting cards requires that acceptance be cost neutral to the County. Primarily because card companies charge fees to process card transactions, the cost neutrality requirement has limited the number of transactions Public Works can accept cards for. The recommended change will allow Public Works to include card acceptance costs in service fees, while offering customers the convenience of paying by card.

The acceptance of cards is allowed per Government Code Section 6159. On February 3, 1998, your Board adopted a cost neutral card acceptance policy with the following provisions:

- Supported development and implementation of cost neutral card payment programs for legally permissible applications in order to provide more payment options to the public.
- Authorized acceptance of cost neutral card applications for the payment of all legally permissible fees, charges, and taxes.
- Required Auditor-Controller review and verification of the cost neutrality of proposed applications and approval of accounting controls.
- Authorized the Treasurer and Tax Collector to enter into merchant card servicing agreements for acceptance and processing of card transactions.

Credit and debit cards are an increasingly desirable and, in many cases, preferred method of payment for many County customers. The popularity of cards as a payment option is primarily due to the automation of point-of-sale applications and the advent of reward programs offered by card issuers. Most businesses accept cards and customers have come to expect this. Card acceptance would provide additional payment options and respond to customer requests for this capability.

Visa and MasterCard command a large percentage of the card market, but also charge fees (card discount fees) in the range of 2 to 3 percent of the transaction amount for the use of their cards. Many potential County applications for card use would not generate sufficient savings (e.g., increased overall revenue, less processing, less uncollectible accounts) to offset the cost of these discount fees. Unless fees for services are raised, the use of cards for such applications would not be cost neutral to the County.

One way of ensuring cost neutrality in card applications would be by charging each card-paying customer a convenience fee. This fee would be for the convenience of paying by card remotely, which at a minimum would include the card discount fee. However, card companies only allow a convenience fee to be charged when there is an actual convenience provided to the customer such as the acceptance of payments via the Internet. Since there is no convenience associated with over-the-counter acceptance of cards, customers could not be charged a convenience fee to cover the costs of that method of card acceptance. Therefore, the only way to accept cards both over-the-counter and on the Internet, while remaining cost neutral, is to pass card acceptance costs on to the customers by increasing service fees.

The Auditor-Controller is responsible for verifying cost neutrality and has indicated that including the card discount fees in the County's service fees would make the card application cost neutral. The issue remains, however, as to whether it is appropriate and consistent with the cost neutrality mandate to spread the cost of accepting cards to all customers by increasing service fees uniformly. For Public Works, this would mean that all customers would be sharing in the card costs, including those not paying by cards. Assuming a 2.5 percent card fee and that 25 percent of customers use cards, the estimated additional cost to all Public Works customers would be 0.63 percent.

By spreading this "cost of doing business" among all Public Works customers, the increase in service fees required to meet the cost neutrality requirement would be reasonable enough to be passed on to them. Although those customers paying by cash or check would not appear to benefit from a slightly higher service fee, providing customers with alternative payment methods may shorten the lines at Public Works public counters and, therefore, result in improved responsiveness to all customers.

Implementation of Strategic Plan Goals

This action furthers the County's Strategic Plan Goal of Service Excellence by providing the public with additional payment options that are convenient, efficient, and secure. In addition, it is expected to reduce customer waiting times at public counters.

FISCAL IMPACT/FINANCING

The fiscal impact to Public Works if the proposed policy is adopted would vary depending on the extent of card usage. The volume of uncollectible accounts and non-sufficient funds checks, although very low already, would be reduced even further with the acceptance of cards. To the extent cards make revenue collection more likely and/or more efficient, revenue and cash flow would also increase. There would be minimal costs to develop procedures, obtain hardware, train staff, process and reconcile card transactions, publicize the new payment options, and to develop, test, and maintain the e-commerce application. These costs would be absorbed in the current Public Works budget.

The fiscal impact to customers would vary depending on how extensively cards were used to pay for services. Based on an estimated range of 10 to 25 percent of Public Works customers using cards, and a range of card processing fees of 2 to 3 percent, the cost to customers would range from 0.2 to 0.75 percent of current service fees. After the first year of card acceptance, sufficient data should be available to adjust fees to correspond with actual card usage and to impose minimum and maximum fees for which cards will be accepted.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

County Counsel has reviewed the legality of including the costs of accepting cards in the fees charged by Public Works for Building and Safety Division services and transportation permits. County Counsel concluded that these costs are indirect costs associated with Public Works regulatory activities that may legally be included in the fees charged for those activities. If the general policy of including card costs in service fees is approved, the legality of including card costs in additional types of fees will be evaluated based on the specific type of fee.

The Auditor-Controller agrees that the inclusion of card acceptance costs (including card discount fees) in fees for permits, inspections, and related services (for both over-the-counter and remote customers) would achieve cost neutrality consistent with existing Board policy and the Strategic Plan Goal of Service Excellence. They further agree that the practice would provide more payment options to all Public Works customers, not just those who have access to web-based services.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

The approval of the policy is required to allow acceptance of cards in conjunction with Public Works current on-line transportation permit system and the new electronic Development and Permit Tracking System (eDAPTS). Acceptance of cards over-the-counter and via e-commerce are key components to Public Works business strategy and customer service requirements.

CONCLUSION

One approved copy of this letter is requested.

Respectfully submitted,

JAMES A. NOYES
Director of Public Works

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cc: Auditor-Controller
Chief Administrative Officer
County Counsel
Treasurer and Tax Collector



JAMES A. NOYES, Director

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May 27, 2004

IN REPLY PLEASE
REFER TO FILE: **FI-4**

TO: Each Supervisor

FROM: James A. Noyes
Director of Public Works

BOARD AGENDA DATE: MAY 18, 2004 CREDIT/DEBIT CARD ACCEPTANCE POLICY, ITEM 56

Agenda Item 56 has been held for two weeks to address questions from Board offices regarding the inclusion of credit/debit card acceptance costs (including card discount fees) in Public Works fees for permits, inspections, and related services. This Item is requesting that the Board conclude that these costs are consistent with the cost neutrality provisions of the existing Board credit/debit card policy. The issue to be decided is whether the Board would consider this practice appropriate and consistent with Board policy since the cost of accepting cards would be incurred by all customers, including those not paying by credit/debit cards.

We understand that there are concerns for the impact of increased fees on cash paying constituents. We do not anticipate the need to increase our fees to cover the additional cost of accepting credit/debit cards. Our cost neutrality analysis that has been submitted to the Auditor-Controller for approval indicates that our existing fees for building and safety and transportation permits will remain sufficient to recover (based upon a 25 percent usage) the minimal anticipated costs for accepting credit/debit cards. The increased cost will be in a range of 0.2 to 0.75 of 1 percent of the total dollars paid with a credit/debit card. For example, if a \$12.90 plumbing permit fee for a water heater is paid with a credit/debit card, our additional cost incurred will be in the range of 3 to 10 cents. Our total estimated annual revenues for Fiscal Year 2003-04 for building and safety and transportation permits will be approximately \$27 million. If 25 percent of customers pay fees with a credit/debit card, our total increased costs would range from \$13,500 to \$51,000 (\$27 million multiplied by 25 percent multiplied by 0.2 to 0.75 of 1 percent). We believe this minimal cost increase is outweighed by the advantages of having an additional payment option and potentially avoiding a trip to a Public Works facility.

Each Supervisor
May 27, 2004
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Additionally, acceptance of cards over-the-counter and via e-commerce are both key components to Public Works business strategy and customer service requirements. We believe that without the ability to charge the same fee for both over-the-counter and remote transactions, usage of the Internet by customers to apply and pay for services such as building and safety permits would not reach its full potential.

Please contact David Yamashita of my staff at (626) 458-5992 if you have any questions or require additional information.

DHY:slf

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cc: Chief Administrative Office
Auditor-Controller